

PUBLIC UTILITIES COMMISSION

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November 24, 2015

The Honorable Shirley N. Weber, Chair
Assembly Budget Committee
State Capitol, Room 6026
Sacramento, CA 95814

The Honorable Richard H. Bloom, Chair
Assembly Budget Subcommittee No. 3 on
Resources and Transportation
State Capitol, Room 2003
Sacramento, CA 95814

Dear Dr. Weber and Asm. Bloom:

Thank you for your October 19 letter and for your continuing commitment to ensuring safety and accountability.

We take the Committee's concerns and input very seriously. After receiving your letter, we immediately agendized a discussion for our November 4 Commissioner Committee on Finance and Administration on how to achieve all necessary budget cuts while preserving safety to the greatest extent possible. After receiving input from our commissioners and the general public, we refined our list of proposed cuts and presented those revisions at the following Finance and Administration Committee on November 18 for final approval. The attached document titled "Budget Modifications FY 2015/16" reflects in detail what cuts the Commission intends to make.

We believe that our proposed cuts will not negatively impact safety vis-à-vis current levels. However, we also believe that absent these cuts, we would be able to improve safety above and beyond where we are today. A review of the attached document shows that the bulk of our budget cuts are the delay of planned information technology contracts, delay in filling vacancies, delay in the implementation of new statutes that do not specify a completion date, and reduction in travel expenses. We have largely avoided budget cuts to any safety-specific activity (and only one-third of safety-specific activity is funded by Fund 0462), but some adjustments to those programs had to be made.

Our current state operations total for the regulation of utilities (Fund 0462) is approximately \$98.5 million. The \$98.5 million approved is \$5 million less than the \$103.5 million settled on following approval of this year's Spring Finance Letters. In addition to the \$5 million cut, the Commission has had to spend approximately \$3 million for unexpected legal expenses. The cumulative impact of our budget cuts and unexpected expenses adds up to a 7.73% reduction from the budget previously considered necessary for the Commission to perform its work regulating California's public utilities.

The Commission took a risk-based approach to identifying potential program changes in response to the budget shortfall. We are making adjustments to our Safety and Enforcement Division's Electric Generation Reliability and Safety program to improve efficiency and account for significant changes in the electric industry since the energy crisis nearly 15 years ago. We

can take advantage of overlapping agency jurisdictions and changed circumstances to make modifications to this program that will not impact on-the-ground safety efforts.

We are also delaying implementation of SB 699 (Hill), which requires the Commission to establish updated rules governing the physical safety of electric infrastructure. That regulatory work will still occur, but it will be on a delayed schedule and will only happen after we confer with the Governor's Office of Emergency Services as to how we can work confidentially with the Critical Infrastructure Safety Team that has national security clearances and can share information on utility infrastructure protection programs with Federal agencies. We are finding that this is a challenge for the Commission, as none of our staff is currently qualified to engage in national security planning, nor are any of the parties who participate in our proceedings. We are also finding that we may not be an appropriate lead agency for establishing separate state rules for physical security of critical utility infrastructure due to our public proceedings that determine rules for overseeing utility actions, which would publish for public discussion the highly confidential protections that federal agencies are currently requiring.

A final safety impact relates to various staff positions that will be held open until funding is restored. More specifically, we will temporarily keep vacant a Public Utilities Regulatory Analyst I position and a Utilities Engineer (Supervisor) position in the Safety and Enforcement Division. While none of the remaining cuts are safety-specific, safety is a responsibility shared by every employee of the Commission and thus all cuts have some degree of safety impact.

I consider our current budget situation to be a significant bump in the road rather than a crisis. I live in Berkeley, which is full of speed bumps. If you hit a speed bump going more than 15 mph, it shakes the car violently and causes you to slow down immediately. That is analogous to what the Commission is currently experiencing. The \$5 million budget cut and the unexpected expenses have given our agency a good shake and have required us to move more slowly this year. We will need to reduce training, reduce travel, delay hiring, and delay certain work. We will not be compromising safety.

We appreciate the Assembly's support for a trailer bill that would both restore the \$5 million in cuts and enact reform measures. We have taken significant time to reflect on the suggestions you have made to help us improve our operations and are looking forward to demonstrating the progress we have made when budget hearings commence in March. Until then, however, please know that you can contact me at any time if you have concerns with our proposed budget cuts or would like to discuss them further. We welcome your input, appreciate your oversight, and look forward to partnering with you in the year ahead.

Sincerely,

A handwritten signature in black ink, reading "Timothy J. Sullivan". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Timothy J. Sullivan
Executive Director



As a result of the \$5 million cut to the Public Utilities Commission Utilities Reimbursement Account (Fund 0462), Commission management has modified its planned activities for the remainder of the fiscal year and prepared this document to describe activities that will be changed. The Commission management proposal took a risk-based approach to identifying potential program changes in response to the budget shortfall. In most cases, we will be delaying implementation of planned projects, programs, or strategic reviews until funding is restored. We are also implementing changes where the primary driver is program efficiency and modernization. This document describes management's plan to manage the approved resources. Changes are sorted from greatest fiscal impact to least fiscal impact, with changes containing any safety-specific impacts marked with an asterisk.¹

- 1) **Delay planned information technology contracts until FY 2016/17** – Effect on Fund 0462 is \$1 million.
 - **Impact:** Several priority planned upgrades to expand functionality of existing information technology systems will be delayed until funding is restored. Delayed upgrades include a contract to update the Communications Division's Telecommunications and User Fees Filing System (used to facilitate the payment of user fees), a contract to update the Administrative Law Judge Division's Agenda Server (used to publish and manage the agenda for Commission voting meetings), the Administrative Services Division's Ektron system (for agency content management), the Administrative Services Division's eFAST system (for management of documents filed with the Commission), and a contract to update the Consumer Affairs Branch's Customer Information Management System (used to track and manage consumer complaints).
- 2) ***Maintain assorted vacancies in the Division of Water and Audits, maintain assorted vacancies in the Safety and Enforcement Division, and reduce use of retired annuitants** – Effect on Fund 0462 is \$851,000.
 - **Impact:** Assorted delays across the Commission impacting everything from consumer protection work to public record act processing. This change includes holding vacant a Utilities Engineer position and a Management Services technician position in the Division of Water and Audits, holding vacant a Public Utilities Regulatory Analyst I position and a Utilities Engineer (Supervisor) position in the Safety and Enforcement Division, and reducing the use of retired annuitants.
- 3) ***Restructure the Electric Generation Reliability and Safety program** – Effect on Fund 0462 is \$849,000.
 - **Impact:** Program will be streamlined to take a risk-based approach to the inspection of generation plants for safety hazards rather than inspect every planned outage at plants 50 MW in size or greater. The program's current Program and Project Supervisor position vacancy will be maintained, as will three of the seven Utilities Engineer position vacancies. One of the existing Utilities Engineer positions in the program will be moved to the Risk Assessment Unit to backfill a Utilities Engineer (Specialist) position vacancy there. In total, the program will be reduced from 10 positions to five positions, with the remaining staff composed of three Utilities Engineer positions reporting to two Utilities Engineer (Supervisor) positions. The remaining staff will investigate major incidents and proactively inspect facilities deemed higher risk during past inspections. The Commission will work with the CEC, the ISO and CalOSHA to eliminate duplicative inspections resulting from shared oversight.
- 4) ***Delay R.15-06-009 implementing SB 699 (Hill) to FY 2016/17** – Effect on Fund 0462 is \$348,000.
 - **Impact:** Proceeding will be delayed until funding is restored. This proceeding is intended to update rules regarding physical security of electric infrastructure. It was initiated in response to the April 16, 2013,

¹ Savings may be for a partial PY due to positions becoming vacant part way through the fiscal year.



PG&E Metcalf Substation incident in which the substation was attacked by gunmen. Since then, FERC and NERC initiated a process to develop standards to address risks due to physical security threats and vulnerabilities. Commission staff participated in this process, including submitting comments on proposed standards to FERC in spring of 2014. SB 699 directed the Commission to consider adopting rules to address physical security risks to the electric distribution system². CalOES is the agency that primarily deals with security issues in California and the Commission will continue working closely with CalOES to address any physical security threats to electric infrastructure. The Commission received three 1-year limited term positions (one Legal Assistant, one Public Utilities Counsel IV, and one Administrative Law Judge II), and one permanent Utilities Engineer (Specialist) position for FY 2015/16.

The three limited-term positions and the permanent position are all currently vacant and will remain so.

- 5) **Maintain one vacancy and shift funding for two positions in Communications Division** – Effect on Fund 0462 is \$246,000.
 - **Impact:** Current Federal Communications Commission-related staff work and associated responsibilities will be delayed due to vacancy until funding is restored. Two Communications Division positions (one Public Utilities Regulatory Analyst III and one Public Utilities Regulatory Analyst V) will be transferred out of Fund 0462. The Public Utilities Regulatory Analyst III position will be moved into Fund 0493 (CA Teleconnect Fund) and the Public Utilities Regulatory Analyst V position will be moved into Fund 3141 (CA Advanced Services Fund).
- 6) **Delay R.15-03-010 implementing AB 2672 (Perea) to FY 2016/17** – Effect on Fund 0462 is \$239,000.
 - **Impact:** Proceeding will be delayed until funding is restored. This proceeding is intended to analyze economically feasible options to increase access to affordable energy in the San Joaquin Valley's disadvantaged communities. The Commission received three 2-year limited term positions (one Public Utilities Regulatory Analyst IV, one Administrative Law Judge II, and one Public Utilities Counsel IV) for FY 2015/16. All three limited-term positions will be held open.
- 7) **Delay SB 1414 (Wolk) legal work** – Effect on Fund 0462 is \$163,000.
 - **Impact:** Legal work will be delayed until funding is restored. This proceeding is intended to require utilities and regulators to include demand response in their resource adequacy plans. The Commission received one 2-year limited term position (a Public Utilities Counsel III) for FY 2015/16 budget. The position is currently vacant and will be held open.
- 8) **Hold open three Consumer Affairs Representative positions** – Effect on Fund 0462 is \$156,000.
 - **Impact:** Phone hold times for consumer complaints will increase.
- 9) **Suspend review and oversight for Research, Development and Demonstration (RD&D) and CSI/CSI Thermal program evaluations** – Effect on Fund 0462 is \$152,000.
 - **Impact:** Commission oversight of utility RD&D programs will temporarily decrease. RD&D programs include CA Energy Systems for the 21st Century (CES 21), California Solar Initiative RD&D, SONGS Settlement RD&D, and the Gas Public Interest Energy Research program. CSI Thermal program review and development and all other CSI evaluation projects will be temporarily suspended. Commission involvement in Multifamily Affordable Solar Housing (MASH) evaluation, Single-family Affordable Solar Homes (SASH) evaluation, and audits of Program Administrators (PG&E, Southern California Edison, and the Center for Sustainable Energy) will be delayed until funding is available.

² Metcalf is a transmission substation, so any rules developed in response to SB 699 would not apply to it or similar substations.



10) Delay Revision of Energy Efficiency (EE) Strategic Plan and Suspend EE Regulatory Options Memo to FY 2016/17 – Effect on Fund 0462 is \$76,000.

- **Impact:** Completion of both documents is delayed until funding is restored. The Strategic Plan was developed in 2007-2008 and is ripe for an update, especially in light of the passage of AB 802 (Williams), which has significant implications for the EE portfolio. An update to the Strategic Plan was scoped into the current EE proceeding, but is now on hold. In the meantime, we will perform sufficient work to meet the proceeding scope (e.g. develop a high level “vision” or “guidance” document as a precursor to a full blown Strategic Plan update), and we will restart the Strategic Plan update work in earnest when funding is restored. Regarding the Regulatory Options Memo, staff was in the process of developing a paper that would explore alternative regulatory models to the current process, which is extremely contentious and staff intensive. The lead staffer on this work is on an educational leave, and we had planned to assign the coordination of this project to another staff person. We will instead delay our strategic review until the staff person returns, which is contemporaneous with the new fiscal year.

11) Suspend work on Joint Reliability Plan (JRP) (R.14-02-001) until FY 2016/17 – Effect on Fund 0462 is \$76,000.

- **Impact:** Analytical work supporting implementation of SB 350 (de Leon) will be delayed. Current JRP work is focused on the production cost modeling which will support SB 350 and Long Term Procurement Planning analytics by establishing a more transparent optimization model. The current phase requires an inventory and a model of existing generation resources and their characteristics to determine if they meet flexibility requirements. The goal was to have an inventory within 3-5 years from February of 2014. Modeling work is delayed until funding is restored.

12) Suspend processing of Combined Heat and Power (CHP) Advice Letters and stop work on CHP settlement for the near future – Effect on Fund 0462 is \$38,000.

- **Impact:** The Energy Division’s Emerging Procurement Strategies team will suspend work on any advice letters related to CHP, including any advice letters requesting approval or modifications of CHP contracts. They will not provide any oversight of existing or upcoming CHP Requests for Offers (RFOs), and they will not review or approve any CHP procurement that results from these RFOs. Additionally, they will not provide the analytical work necessary to publish semi-annual public reports of the IOUs’ progress toward meeting CHP procurement targets. Further, they will suspend SoCalGas’s pending advice letter required to implement its recently adopted Distributed Energy Resource tariff. Activities are planned to resume on July 1, 2016.

13) Delay affiliate transaction audits – Effect on Fund 0462 is \$38,000.

- **Impact:** Compliance audits will be delayed until funding is restored. Affiliate Transaction Rules govern transactions between the utility and its “affiliates.” An “affiliate” is defined by D.97-12-088, and most recently modified by D.06-12-029, as any entity in which 5 percent of the outstanding securities are owned, controlled, or held by a utility or its subsidiaries. Therefore, “affiliate transactions” are economic or market activities between a utility (or its subsidiary or parent holding company) and its affiliates. Affiliate Transaction Rules have two primary goals: (1) preventing utility ratepayers from cross-subsidizing a utility’s un-regulated investments via their affiliates and (2) preventing the utility from exerting its inherent market power to the detriment of the competitive marketplace. CPUC Decision requires biennial, independent audits of each of the four large energy utilities’ (PG&E, SDG&E, SoCal Gas, and SCE) compliance with the Affiliate Transaction Rules. This round of audits will cover the utilities’ compliance for calendar years 2012 and 2013. The auditor will write an audit report for each utility



assessing compliance with the Rules, making recommendations for improvements, and the CPUC will post the reports to its website. The next audit is scheduled to begin January 1, 2016.

14) Decrease commissioner office operating budgets – Effect on Fund 0462 is \$31,500.

- **Impact:** More public participation hearings and other statewide Commission business will have to be conducted in San Francisco. Members of the public will be less likely to offer their input on the disposition of numerous Commission proceedings.

These proposals **total \$4,263,500** in explicit reductions towards the \$5 million target if executed beginning November 1st, 2015. The proposals assume that a vacancy rate of 5% will occur in addition to these targeted cuts, and that positions associated with the 5% vacancy rate will likely remain vacant. Because the year-to-date vacancy rate has been higher than the assumed levels (common at the beginning of a fiscal year when new positions have been authorized), and because of the difficulty in filling a number of the currently vacant positions, we estimate that the Commission vacancy rate might exceed the historically assumed 5%. Therefore, we set an internal target of reducing our budget from these specific proposals by \$4.2 million, anticipating that these higher vacancies will account for another \$800,000. We will, of course, monitor these developments closely to ensure the Commission does not expend at a rate that will incur a deficiency.